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Software Developer, Cybersecurity Analyst.

Analytical Framework of Initial Public Offerings (IPOs): Price Formation, Market Dynamics, and Early-Stage Valuation Regimes

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Copyright

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About The Author

Djibril Chimère Diaw

Software Developer, Cybersecurity Analyst.

Dedication

To

my mother Marème Fall

my father Amadou Chimère Diaw

my wife Isabelle Diaw

my children

Fatou-Chimère Diaw, Ahmadou-Chimère Diaw,

Marième-Chimère Diaw, Aïssata-Chimère Diaw .

my grandparents

Fatou Methiour Ndiaye & Waly Sega Fall

Fatou Faye & Souleymane Chimère Diaw

Teachers

To those who shall come into the world a century after me, beginning in the year two thousand and seventy-two.

To all mothers,

to those who made our coming into the world possible through the gift of themselves,
to those who, even today, carry, give birth to, nourish, protect, and raise life,
to those who, tomorrow, will continue to open the path of human existence.

To all women who, in silence or in light, have risked their bodies, their strength, and sometimes their lives so that humanity may endure.
To their quiet courage, their daily resilience, and their founding love.

May this work stand as an act of recognition,
a tribute passed on from generation to generation,
and a word of gratitude addressed to those without whom nothing would have been, nothing is, and nothing will be.

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Analytical Framework of Initial Public Offerings (IPOs): Price Formation, Market Dynamics, and Early-Stage Valuation Regimes

Editorial Preface

The initial public offering represents one of the most singular moments in contemporary financial markets. It concentrates, within a very short time span, phenomena that are usually distributed over years: price discovery, confrontation between expectations and reality, liquidity formation, and the emergence of new valuation equilibria.

In this context, the IPO cannot be reduced to a simple listing event. It constitutes a dynamic process through which the market progressively constructs a collective representation of value for a company that is still insufficiently historically observed. This construction is simultaneously quantitative, behavioral, and narrative in nature.

General Introduction

Modern IPOs operate within a financial environment characterized by high flow interconnection, increased institutional participation, and instantaneous information dissemination. These conditions profoundly transform the way prices are formed during the first trading sessions.

Unlike established markets, where technical and fundamental levels are stabilized, an IPO lacks a usable historical record. The initial price does not constitute an equilibrium but a starting point. From this point onward, the market engages in a discovery process that combines investor psychology, liquidity arbitrage, and adjustments of growth expectations.

Thus, the study of IPOs requires a specific analytical framework capable of simultaneously integrating initial volatility, progressive structuring of price levels, and implicit ranking of valuations relative to already established companies.

Price Formation Dynamics and Transition Regimes in Initial Public Offerings: A Structural Analysis of Discovery, Consolidation, and Trend Phases

1. Economic Nature of the IPO Phase

An initial public offering represents a transition from a private asset to a publicly traded asset subject to immediate supply and demand confrontation. This transition involves three fundamental transformations:

- **Information transformation**: private expectations become public and tradable
- **Liquidity transformation**: shift from constrained liquidity to market liquidity
- **Valuation transformation**: shift from internal estimation to collective pricing

Within this framework, the initial price is structurally unstable, as it does not yet reflect convergence of opinions but only an initial equilibrium condition.

2. Price Discovery Phase

The first phase of an IPO is dominated by price discovery, characterized by high variation amplitude and absence of historical reference points.

Key characteristics include:

- high volatility
- temporary imbalance between buyers and sellers
- rapid formation of psychological levels
- absence of consolidated technical structure

This phase is essential as it establishes the first implicit valuation boundaries. It corresponds to a period in which the market tests the true depth of demand.

3. Initial Consolidation Phase

After the initial impulse, a consolidation phase frequently emerges. It manifests through:

- stabilization of a price range
- gradual reduction in volatility amplitude
- rotation of short-term positions
- clarification of support and resistance levels

This phase reflects a process of absorption of initial supply and rebalancing of flows. It is a key moment of market structuring, as it enables the transition from a purely speculative regime to a directional regime.

4. Range Breakout and Trend Resumption

The exit from a consolidation range constitutes a critical moment. It may lead to two distinct trajectories:

- **Bullish continuation**: resumption of momentum and valuation expansion
- **Structural rejection**: return to prior or lateral valuation levels

A range breakout is particularly significant when accompanied by high volume, indicating a reactivation of directional flows.

5. Valuation Regimes and Implicit Hierarchy

In contemporary markets, IPOs are not evaluated in isolation. They are embedded within a global capitalization hierarchy where large technology companies serve as implicit reference points.

A structural segmentation can thus be observed:

- emerging mega-caps (1–3T)
- sector leaders (3–5T)
- systemic dominants (>5T)

The evolution of an IPO toward these levels depends not only on current financial performance but also on its ability to be integrated into dominant macroeconomic narratives (technology, infrastructure, artificial intelligence, space, etc.).

6. Behavioral Dimension of IPO Markets

IPOs are also characterized by the superposition of heterogeneous behaviors:

- institutional investors (strategic allocation)
- momentum traders (trend amplification)
- early investors (profit-taking)
- short-term speculative actors (volatility arbitrage)

This coexistence produces complex dynamics in which phases of euphoria and correction can alternate rapidly.

Transversal Conclusion on the IPO Framework

The analysis of initial public offerings shows that price formation is not a punctual event but a progressive structuring process. This process is organized around three main regimes: initial discovery, consolidation, and directional resumption.

Each IPO thus represents a temporarily unstable dynamic system in which markets construct a value hierarchy in real time. This hierarchy is not based solely on immediate fundamentals but on the progressive integration of the company into collective representations of future growth.

The IPO framework therefore appears as a transitional space between anticipation and validation, where price becomes the condensed expression of a global arbitrage between economic narrative, available liquidity, and long-term expectations.